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THE COTTON SITUATION

Summary

DOCUMENTS DEPT

U. S. DEPOSITORY

Spot cotton prices at the 10 markets were comparatively steady in May and early June, but declined sharply in the second and third weeks of June. The average of 12.25 cents in the week ended June 20 was nearly 2-3/4 cents below the peak reached the latter part of March.

With indications pointing to the probability that domestic consumption plus exports of American cotton will run well over 13 million bales this season, the Bureau of Agricultural Economics estimated today that the carryover of American cotton in the United States on July 31 will be about 4.4 million bales, or about a million bales less than the carryover on the corresponding date in 1936. While total carryover will be smaller, the supply of "free" cotton in trade channels will be larger, since a much smaller proportion of this season's carryover will consist of Government financed cotton.

Cotton mill activity in the United States continues very high, but activity tended to decline gradually in May and the first half of June. New orders have been running behind mill output since the middle of March. Cotton textile industries in foreign countries as a whole maintained the high degree of activity which has characterized their operations during recent months. Apparently the outlook is somewhat uncertain in England, France and Japan, but Italian mills are more than holding the improvement shown during the past few months.

World cotton production in 1936-37 has been tentatively estimated as 30.9 million bales, and foreign production as $18\frac{1}{2}$ million bales, both record highs.

DOMESTIC PRICES STEADY IN MAY BUT DECLINE IN JUNE

Spot prices at the 10 markets were relatively stable during May in contrast to the abrupt rise in March and the rather sharp decline in April. The average for the month of May was 13.12 cents, compared with 13.91 in April, 14.15 in March, and 11.56 cents in May 1936. Prices remained comparatively steady in the first few days of June, but declined sharply in the second and third weeks of the month. The averages for the weeks ended June 5, 12 and 20 were 13.00, 12.39 and 12.25 cents, respectively.

While mill activity and cotton consumption continue high in this country and throughout the world as a whole, the recent leveling off in domestic business activity, the falling of new orders behind cotton mill output in recent months, and the very low level of exports and foreign consumption of American cotton as compared with most earlier years have tended to make the demand situation somewhat less favorable than a few months ago.

CARRYOVER PROBABLY 1,000,000 BALES SMALLER

With indications pointing toward a domestic consumption of American cotton of about 7,800,000 bales and exports of about 5,500,000 bales, it seems likely that the stock of American cotton in the United States on July 31 will be about 4,400,000 bales, of which about 2,750,000 bales will be "free" cotton. On July 31, 1936, the carryover of American cotton in the United States was 5,324,000 bales, about 2,100,000 of which were in trade channels and the remaining 3,200,000 bales were in the loan stock. In the 10 years ended 1932-33 carryover in the United States on July 31 averaged 3,687,000 bales. Included in this latter figure, however, are the spot holdings of the Farm Board in 1930, 1931 and 1932. The anticipated carryover of cotton in trade channels in the United States at the end of the present season is about the same as the average carryover in the 5 years ended 1929-30. In this latter period all of the carryover consisted of "free" cotton. In the 5 years ending with 1929-30, however, domestic consumption plus exports averaged about 15,000,000 bales, or nearly 2,000,000 bales more than the anticipated total for this season.

The Commodity Credit Corporation announced on June 11 that between February 1 and June 10, 1937, requests for the release of 12 and 11-cent loan cotton have been received for a total of approximately 1,331,000 bales, at an average price of about $13\frac{1}{2}$ cents per pound. About 1,650,000 bales now remain in the loan stock. The quantities released in recent weeks have been very small, and the Corporation stated that no concession from the loan price will be made during the period June 25, 1937 to January 1, 1938. (The minimum 10-market price, below which price no cotton could be released under the plan which has been in operation since February 1, was 12.75 cents. The market price has been less than this minimum since June 7.)

EXPORTS IN MAY BELOW THOSE A YEAR EARLIER

Exports of 322,000 bales of cotton from the United States in May were 8 percent less than exports in May a year earlier. In the 10 months ending with May, shipments totaled 5,087,000 bales compared with 5,519,000 bales in the corresponding months last season. In the 10 years ended with 1932-33, exports in May averaged 417,400 bales and exports in the 10-month period averaged 7,213,200 bales. The smaller quantity exported this year, both in May and in the 10-month period, as compared with the corresponding periods in 1935-36 resulted from smaller shipments to the United Kingdom, Germany and Spain.

The heavy movement of cotton from the leading foreign exporting countries continues. Shipments from India in April amounted to 383,300 bales, or slightly less than exports in April 1936 but 44 percent more than average exports for April in the 10-year period 1923-24 to 1932-33. Exports in the 9 months ended April totaled 2,699,200 bales, a record high for the period. Exports from Egypt dropped off in May compared with earlier months this season and with the corresponding month in the last 5 or 6 years. This decline in exports in May, however, is reasonable in the light of the extremely heavy shipments of the past 6 or 7 months. Total exports of 1,679,600 bales for the season to date constitute a record high. Exports from Brazil from August to the end of March totaled 608,723 bales, compared with 366,100 in 1935-36, 528,240 in 1934-35, 123,500 in 1933-34, and were the highest for any similar period on record.

THE TEXTILE SITUATION

Domestic Mill Activity Declines Slightly
As Sales of Goods Continue to Run Below Output

The domestic cotton spinning industry tended to reduce operations during May and the first part of June, according to trade reports. Mill sales of goods have been much below current output since mid-March. Prices of goods tended to decline in May, and mill margins on standard unfinished goods narrowed. The average margin in May of 17.66 cents was nearly a cent lower than in April, although much higher than the margin of 11.62 in May 1936.

Mill activity is reported to be tending downward, but on the whole the decrease in activity is quite gradual, since some mills still have a large volume of unfilled orders on their books. Large quantities of goods continue to be shipped on old orders, and it is reported that retail business in cotton goods has been better in recent months than in the same period last season. However, in view of the protracted period during which mill sales of goods have been less than current output, with a consequent heavy reduction in the volume of unfilled orders, and in view of the general leveling off in general industrial activity in the United States, it is not unlikely that there will be a reduction in mill activity and cotton consumption in the next few months equal to or slightly greater than the normal seasonal decline.

European Mill Activity Continues High, But New Orders Lag 1/

The European cotton textile situation as a whole showed no material change in May, but a lull in new business appeared in several countries, especially in the United Kingdom and France. While dullness is not unusual at this time of the year, these developments are believed to be more than seasonal. An important factor contributing to the decline in new orders is believed to be the generally weaker tone of the raw cotton market. As yet, however, there has been no marked decline in the generally satisfactory level of mill activity.

United Kingdom.- In the United Kingdom a falling-off in buying characterized most branches of the grade during May, although the volume of unfilled orders is still large and mill activity continues at a high rate, with no serious recession in sight. There is reported to be a general belief that a volume of potential new orders is accumulating against the time when the price outlook becomes clear. Consequently, neither spinners nor weavers are as yet showing much disposition to make price concessions in order to increase their volume of new orders.

France.- With signs of a slackening in business during April, there has developed in France a rather prolonged recession in trading in yarns and cloth, and unfilled orders of both spinners and weavers have been considerably reduced. Manufacturers are complaining of increased foreign competition in the colonies, as well as in France proper. The industry also is increasingly concerned over the sharp rise in production costs which, from the standpoint of foreign competition, is claimed to have offset the advantage which otherwise would have followed the devaluation of the franc.

Germany.- Conditions in the German cotton textile industry showed little change during May. Spinners and weavers were well occupied in most parts of the country, with artificial fibers continuing to fill the large gap resulting from a scarcity of natural fibers. According to the recent semi-annual report of the Institute for Business Research, German textile production as a whole in 1936 was about as high as in 1934 and 8 percent above 1935. In general, four measures have been employed to maintain textile activity in the face of the acute shortage of raw cotton: (1) Manufacturers have shifted over to producing finer yarns, fabrics and knitted goods, which require less raw material. (2) Stocks of textile raw material, semi-manufactures and manufactures have been reduced. (3) Reclaimed textile material in 1936 provided a total of 270,000,000 to 331,000,000 pounds, or the equivalent of 623,000 to 692,000 bales of raw cotton on a pound for pound basis. (4) Domestic agriculture in 1936 supplied a total of 103,000,000 pounds of textile fibers compared with only 16,000,000 pounds in 1933. Synthetic fibers, rayon and rayon staple fiber, were produced in 1936 to the amount of 220,000,000 pounds, or the equivalent of 461,000 bales of raw cotton, compared with only 72,000,000 pounds or 150,000 bales in 1933.

Italy.- Reports from Italy indicate that the cotton textile industry of that country is continuing to show improvement. Mill activity in Italy during May was well up to the greatly improved levels of the early part of the year, and further gains are expected in view of the large export sales at the favorable prices which Italy can quote in terms of the devalued lira.

1/ Prepared largely from a report from Agricultural Attache Lloyd V. Steere, at Berlin, under date of June 11.

Russia.— Russian cotton textile equipment, according to reports, is inadequate for utilizing available supplies of raw cotton. Some sources indicate that 3,210,000 bales of cotton are to be processed in 1937 as compared with 2,546,000 bales in 1936. However, 1,700,000 new spindles are believed to be necessary in order to use the additional quantity of cotton provided for by the 1937 plan. This inability of the equipment of the Russian industry to meet the demands put upon it may be one reason why in recent months significant quantities of the present large Russian crop have been exported to England.

Japanese and Chinese Consumption Continue High - Japanese Outlook Somewhat Less Favorable

Japan.— Yarn production continued very high during May, but it is reported by the office of the Agricultural Commissioner at Shanghai that the current situation contains some elements of weakness. Costs of production are increasing with a consequent threat to Japan's present strong competitive position in world markets. Furthermore, it is doubtful whether manufacturers will be able to pass on the increased costs to domestic consumers in the form of higher prices. To date, however, mill activity has been running very high, and profits are large.

Imports of American cotton declined in May compared with April, but were slightly higher than imports in May 1936. The decrease in imports of American compared with the preceding month was partly seasonal, but it was also partly due to a scarcity in the United States of those grades of American cotton which are most in demand in Japan at the present time. Imports of Indian were larger than in April, but slightly smaller than in May 1936. In the 9-month period, September to May, imports of all cottons totaled 3,574,000 bales, compared with 2,857,000 in the corresponding period a year earlier, an increase of 25 percent. While imports of American showed a small increase most of the increase in the total was accounted for by larger imports of Indian, Egyptian, Chinese, Brazilian and miscellaneous growths.

China.— Mill activity continued very high during May and the first part of June. Many mills have a large volume of unfilled orders. Yarn has been selling rapidly and stocks are low. A rise in Government taxes on yarn about June 1 did not seem to have any immediate depressing effect upon prices or consumption. Available information makes it seem likely that if present rates of mill consumption continue, stocks of Chinese cotton in the interior will about meet spinning requirements and provide for a moderate carryover. Arrivals of all cotton at Shanghai in May totaled 150,000 bales, of which 143,000 were Chinese. Stocks in Shanghai public warehouses amounted to 139,000 bales, of which 133,000 were Chinese. While Chinese consumption continues to consist almost entirely of domestic cotton, considerable purchases of Indian have been reported. Imports and consumption of American cotton continue to be negligible in amount.

WORLD AND FOREIGN PRODUCTION IN 1936-37 EXPECTED TO BE A RECORD HIGH

It was pointed out in the May issue of the Cotton Situation that the acreage and production of cotton in practically all of the important individual foreign cotton producing countries are at or near a record high level.

World production of all kinds of cotton in 1936-37 has been tentatively estimated as 30,900,000 bales, compared with the previous estimate of 30,200,000 bales and last year's crop (1935-36) of 26,500,000 bales. Anticipated foreign production of 18,500,000 bales is a new record high, and compares with the 1935-36 figure of 16,100,000 and the average for the 10 years ended 1932-33 of 11,200,000 bales. In the 10 years ended 1932-33 production in the United States averaged 14,400,000 bales, or about 3,200,000 more than average foreign production in the same period. In 1934-35 and 1935-36 foreign production exceeded American by 4,500,000 and 5,400,000 bales, respectively. Apparently, foreign output in 1936-37 will exceed the estimated United States crop (1936) of 12,400,000 bales by 6,100,000 bales.

The United States.- Reports from trade sources state that practically all of the new crop in the United States has now been planted, and that weather conditions on the whole during recent months have been favorable for the planting and early growth of the crop. The crop is now entering the period when temperature and rainfall will determine the rate of increase in boll weevils. The relatively dry conditions which prevailed during most of the month of May throughout the Belt as a whole is considered by the trade to be favorable to the crop. However, the ultimate yield, insofar as it is affected by weevil damage and other direct and indirect results of rainfall and temperature, will depend to a larger degree upon weather conditions during the next 2 or 3 months.

A report on the acreage of cotton in cultivation in the United States on July 1 will be issued by the Crop Reporting Board on July 8.

Fertilizer tag sales in 8 cotton States, as reported by the National Fertilizer Association, indicate that much more fertilizer is being used in the South this season than for several years past. Tag sales from December to the end of May totaled 3,909,600 tons, compared with 3,042,800 tons in the corresponding period last season. These are the heaviest sales of fertilizer since 1929-30, when sales from December to May aggregated 4,304,700 tons. Since the 1920-21 season, the largest and smallest sales of tags in this 6-month period were in 1927-28 and 1931-32, respectively, when sales amounted to 4,357,400 tons in the earlier year and 1,781,600 tons in the latter year.

China.- A cablegram from the office of the United States Agricultural Commissioner at Shanghai dated June 14 stated that weather conditions during May and early June continue to be favorable to the new crop. In north China, however, growing conditions are reported to be spotty, with the new crop getting off to a poor start in some areas. Spring rains permitted an increase in acreage, but deficient subsoil moisture in some regions has caused irregular plant development. Growing conditions in the Shanghai area have been favorable to a high yield on an area considerably greater than last year. Preliminary indications point to a new crop acreage for all China about 10 percent larger than the acreage for the past season. With average yields, the crop from this acreage would approximate the record high production of the past year.

Russia.- It was pointed out in the Situation for last month that current reports from Russia place the 1936-37 crop as high as 3,500,000 bales, but that in view of the tendency in certain other seasons for early estimates of the crop to be in excess of that actually harvested and marketed, this Bureau is making a preliminary estimate of 1936-37 Russian production at from 3,000,000 to 3,250,000 bales.

It is reported that problems of the third 5-year Plan (period ended 1942) are now being discussed in the U.S.S.R. Figures of from 5,700,000 to 8,300,000 bales have been mentioned as possible cotton production goals for the year 1942. These figures are tentative, of course, and they give very little indication of what Russian production may be expected to be in the next few years, but they do indicate that attempts will probably be made to bring about further large increases in the Russian crop. It should be noted, however, that the low per capita cotton consumption in Russia and the rapid increase in population suggest that any further increase in Russian cotton production which may occur may be accompanied by very nearly a corresponding increase in Russian consumption.

Balkan countries.-- Reports indicate that attempts to develop cotton growing in the Balkan countries is meeting with considerable success. Greece, Bulgaria, Yugoslavia, and Rumania have set up organizations whose function it is to promote acreage expansion and improve the quality of the cotton produced. In Bulgaria, Yugoslavia and Rumania the Governments not only engage in educational and promotional activities but compel the local textile industry to buy the domestic cotton crop from growers at a price higher than the world price. It is reported to be the desire of these countries to ultimately achieve self-sufficiency in cotton production. Preliminary estimates of acreage and production for 1936-37, as shown in the following table, indicate increases of nearly 250 percent and more than 400 percent, respectively, over average area and production in the 5-year period ended 1932-33.

Country	Average 1928-29 to 1932-33		1936-37 (preliminary)	
	Area	Production	Area	Production
	1,000 acres	1,000 bales of 478 lbs.	1,000 acres	1,000 bales of 478 lbs.
Greece	46.7	16.4	138.0	58.0
Bulgaria	14.8	4.3	72.0	29.0
Yugoslavia	2.2	.5	5.0	1.0
Rumania2	.1	4.0	1.0
Total	63.9	21.3	219.0	89.0

All four of these countries are comparatively small both as producers and as consumers of raw cotton. However, the recent increases in their output, and the avowed policies of their Governments to promote continued expansion constitutes, when combined with the growing output of other individually small cotton producing areas, constitute a significant addition to total foreign production.

